CLO Monthly Monitor
March 2022

• In March, CLO returns across ratings significantly outperformed those of U.S. Investment Grade and High Yield corporate credit. Compared to U.S. Leveraged Loans, Investment Grade rated CLO tranches (AAA-BBB) modestly trailed Leveraged Loans, but BB and single B tranches outperformed Loans.

Loan Market Review

• The CS Leveraged Loan Index returned 0.04% for March, bringing the YTD return of the asset class to -0.10%. On a relative basis, loans again fared better than high yield bonds, finishing the quarter 494 basis points higher.

• March's institutional leveraged loan issuance was $16.99bn, with total new issuance for Q1 finishing at $113.5bn, compared to $184.7bn in Q1 2021.

• Leveraged loans finally began to experience some of the weakness that the broader market has felt since February, which saw returns reach a low of -1.78% in mid-March. However, following the hawkish tone coming from Fed Chair Jerome Powell and other members of the Federal Reserve in the latter half of the month, loans fully recovered from that level and ended the month in positive territory.

• Retail fund flows returned to their staggering early-quarter pace, which had been rather subdued following news of Russia's invasion of Ukraine, averaging $1.8bn for the last two weeks of March. The surge in retail fund flows has helped to soften the impact of slowing CLO origination during the quarter, leaving the total measurable demand just below the 2021 average.

• Sector performance was mixed across the 20 industries in March, with Utilities and Energy stocks leading the way at 0.84% and 0.42%, respectively. Chemicals/Plastics, Packaging/Containers, Retail and Consumer Durables lagged the rest of the index as rising input costs and consumer inflation expectations are taking their toll.

• Credit quality returns favored higher versus lower ratings for the month. BBB-BB rated loans were the best performers, returning 0.22%, while CCC rated and lower returned -1.22%.

• There were no loan issuer defaults again in March, reducing the trailing 12-month issuer default rate to 0.41%, well below the long-term average of 3%.

CLO Market Review

• CLO tranches had mixed total returns in March. CLO returns were 0.00% (AAA), -0.18% (AA), -0.19% (A), -0.08% (BBB), 0.11% (BB), and 0.40% (B).

• CLO issuance for March totaled $11.5bn, which puts cumulative issuance for 2022 $10bn off of 2021's record pace. CLO new issuance this year has come from 59 deals by 45 managers (Source: LCD).

• Despite CLO spread tightening late in the month, it was not enough to offset the spread widening that occurred early in the month. Discount margins finished 4-19 bps wider across rating tranches in March and 19-53 bps wider for the quarter.

• The credit-widening trend was driven by macroeconomic uncertainty, as well as heavy activity in the secondary CLO market. Average daily AAA BWIC ("bids wanted in competition") volume in the year-to-date is above $700 million, compared to $259 million in 2021.

• The higher primary spread levels have created a difficult environment for the new issue market (WACC is 20 bps higher YTD), which is currently dislocated from the underlying leveraged loan market. New issue conditions are expected to improve over time, as CLOs are still well-positioned as the Federal Reserve continues to prepare the market for higher interest rates.

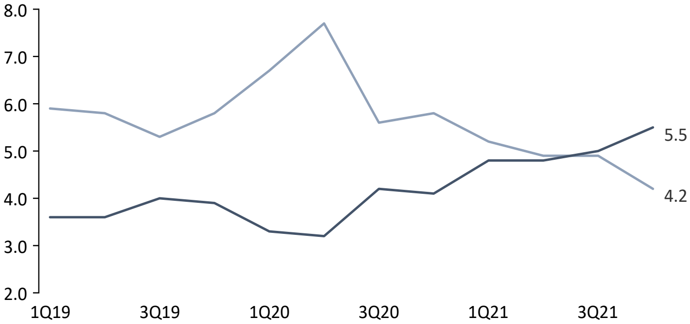
• The combination of the benign default environment and strong earnings growth for underlying loan issuers continue to support CLO fundamentals. With earnings through December 2021 released, U.S. leveraged loan issuers have seen the fourth consecutive quarter of double-digit earnings growth. Stronger earnings and a shrinking debt-to-EBITDA ratio, currently down to 4.22x from the 7.70x pandemic high, have provided an increasingly supported backdrop for debt servicing for loan issuers.

• The recent widening spreads, along with a steep forward rate curve, have further strengthened the already attractive relative value of CLOs. The yield pickup relative to corporate bonds at each credit rating is substantial, without the addition of interest rate risk. BBB-rated CLOs are out-yielding BBB-rated investment grade bonds by 221 basis points (6.07% versus 3.86%) and moving to BB-rated CLOs provides a 501 basis point advantage over BB-rated high yield bonds (10.01% versus 5.00%).

Charts of the Month

1. Bank loan issuer fundamentals remain attractive and are improving upon their pre-pandemic levels

Leverage Loan Issuer Fundamentals

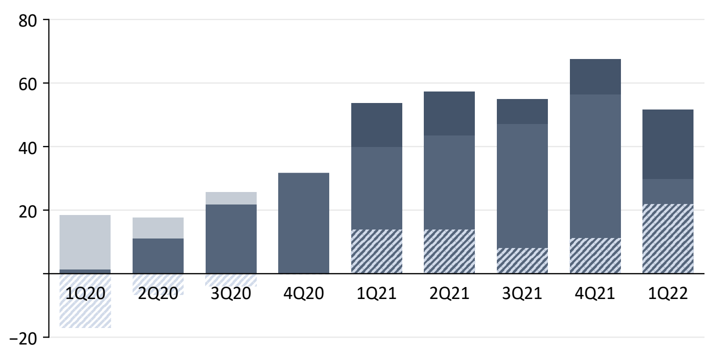


Leverage Loan Issuers ex-Gaming/Transportation

Source: JP Morgan, as of March 31, 2022

2. Total measurable demand for bank loans falls from 2021 levels despite a record quarter for retail fund inflows

US Leveraged Loan Market Demand ($bn)



Source: LCD Research, Lipper, as of March 31, 2022

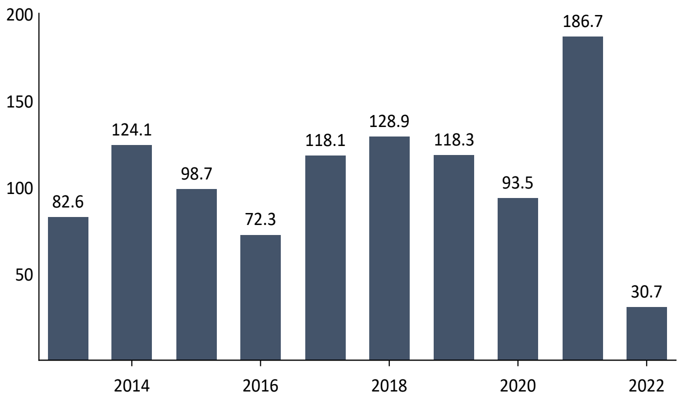
CLO MONTHLY MONITOR
MARCH 2022

Market Data	Mar-22 Return (%)	1-Year Return (%)	Yield (%)	Mar Yield Change (bps)	DM (BPS)	Price ($)
JP Morgan CLO Indices						
AAA-Rated	0.00	0.63	3.81	61	135	99.32
AA-Rated	-0.18	0.80	4.33	56	188	98.83
A-Rated	-0.19	1.09	4.87	54	243	98.32
BBB-Rated	-0.08	2.64	6.07	53	363	97.57
BB-Rated	0.11	7.62	10.01	58	749	93.68
B-Rated	0.40	15.60	13.11	68	1049	84.28
Credit Suisse Leveraged Loan Index						
BB-Rated	0.14	2.15	5.83	90	323	98.54
B-Rated	0.02	3.52	7.11	97	452	98.08
CCC-Rated	-1.15	5.09	12.86	159	1015	87.44
Distressed (CC, C, and Default)	-1.94	-4.74	21.32	272	1832	72.79

Source: JP Morgan, Credit Suisse, as of March 31, 2022

Technicals

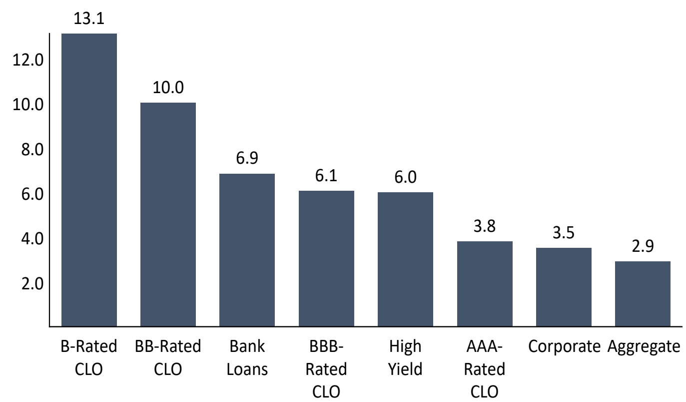
Annual CLO New Issuance ($bn)



Source: Source: S&P Global Research as of March 31, 2022

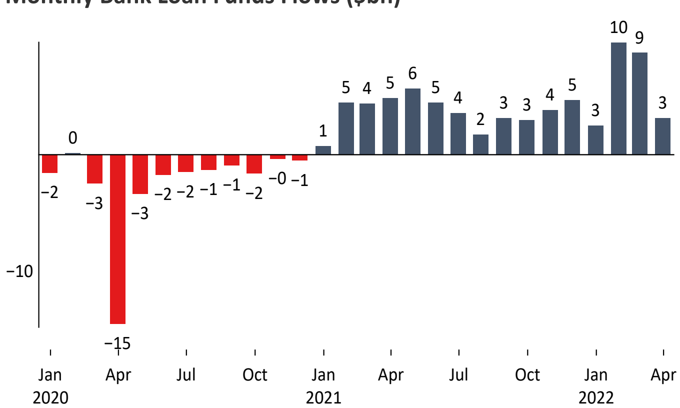
Valuations

Yields on Various Asset Classes (%)



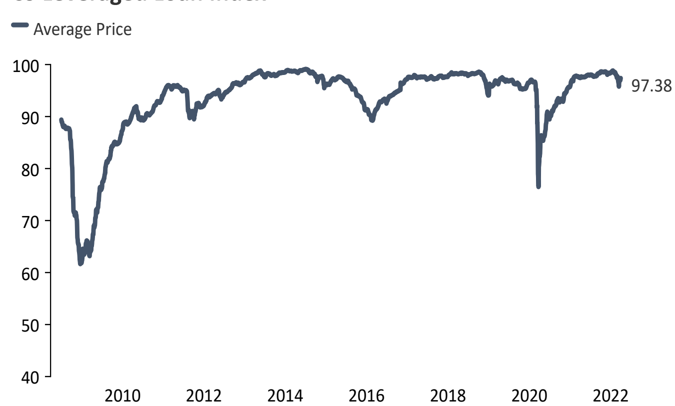
Source: JP Morgan, Credit Suisse, Barclays, as of March 31, 2022

Monthly Bank Loan Funds Flows ($bn)



Source: S&P/LCD Research, as of March 31, 2022

CS Leveraged Loan Index



Source: Credit Suisse, as of March 31, 2022

ABOUT PACIFIC ASSET MANAGEMENT

Founded in 2007, Pacific Asset Management LLC, specializes in institutional fixed income management. As of March 31, 2022 the firm managed $20bn across bank loan, high yield, corporate, and CLO strategies.

IMPORTANT NOTES AND DISCLOSURES